

interim report

For the six month period ended 30 September 2008



The last six months has seen the turmoil in the financial services market continue, with significant changes in both funding and lending opportunities for NZF Group. NZF Group has continued with its conservative approach to credit underwriting in these market conditions.

The Directors are pleased to report that NZF Group achieved a net profit after tax of \$1.3m for the six month period ended 30 September 2008, which is in line with expectations and profit guidance given to the market on 15 August 2008. The Directors are also pleased to report that:

- Total assets increased by 5.4% since 30 September 2007 and remain consistent with levels reported at 31 March 2008.
- Total equity increased by 5.2% since 30 September 2007 and 2.28% since 31 March 2008 to \$24.888m.
- At 30 September 2008, NZF Group had cash reserves of \$6.662m and total undrawn bank facilities of \$72.997m.
- Subsidiary companies, NZF Money Limited and Finance Direct Limited, have both been approved under the New Zealand Crown Retail Deposit Guarantee Scheme, effectively guaranteeing qualifying deposits until 12 October 2010.
- Bad debts written off during the six month period were \$64k compared to total bad debts of \$158k written off during the year ended 31 March 2008.
- Interim dividend of 0.50 cents per share to be paid.

Managing Director, John Callaghan, elaborated on the result saying, "The last six months has seen total assets remain at similar levels reported to March 2008, under difficult market conditions. We have remained conservative in this market given the uncertainty that exists over the 'credit crunch' and we have started to see its impact on lenders in our market."

"We continue to see pressure to reduce the Official Cash Rate (OCR), with pricing remaining a key consideration when assessing new lending opportunities. Continued reductions in the OCR will have an impact on Group results moving forward. We 'mark to market' all financial instruments and reducing cash rates will lead to further reductions in these valuations. These may become material. All our fixed rate mortgages are matched with individual interest rate swap contracts for the duration of the fixed rate loan period. As a result, all fixed rate mortgage lending is perfectly hedged and there is no risk to the Group arising from subsequent changes in interest

TOTAL ASSETS (\$'000)

30:09:08 **\$282,279**

31:03:08 **\$281,891**

30:09:07 **\$267,850**

31:03:07 **\$199,453**

30:09:06 **\$170,143**

31:03:06 **\$129,708**

TOTAL EQUITY (\$'000)

30:09:08 **\$24,888**

31:03:08 **\$24,334**

30:09:07 **\$23,659**

31:03:07 **\$21,176**

30:09:06 **\$20,442**

31:03:06 **\$18,417**

rates. Being perfectly hedged ensures that there is no reduction in cash flow profits resulting from these revaluations of the financial instruments, and once hedge accounting is adopted, future movements will be through reserves and not affect the operating result.”

“As the effect of the international credit markets are being felt in New Zealand, and the increased pressure on mortgages, we expect to see an increase in arrears and potentially increased levels of bad debts. However, we continue to operate a conservative lending approach and closely monitor the performance of all borrowers, which to date has resulted in minimal levels of bad debts.”

Richard Waddel, Chairman, adds “The result achieved is acceptable given the current market conditions and the demise of some higher profile competitors. The trading bank experience of our senior management team and directors has been put to the

test and this has kept NZF Group in good standing. The approval of both NZF Money Limited and Finance Direct Limited under the Crown Retail Deposit Guarantee Scheme is an indication of the commitment and competence shown in the management of these companies.”

The Directors have resolved to declare a fully imputed interim dividend of 0.50 cents per share. The record date for the interim dividend is 5.00pm on 5 December 2008 with the payment date being 12 December 2008.

Financial information in this release has been extracted from the unaudited interim financial statements for NZF Group for the six month period ended 30 September 2008.



Richard Waddel
Chairman
21 November 2008

Consolidated Income Statement

For the six month period ended 30 September 2008

	30-Sep 2008 (6 Months) Unaudited \$'000	31-Mar 2008 (12 Months) Audited \$'000	30-Sep 2007 (6 Months) Unaudited \$'000
Interest income	14,781	26,712	12,510
Interest expense	(12,089)	(21,723)	(9,835)
Net interest income	2,692	4,989	2,675
Fee and commission income	6,475	18,429	10,181
Fee and commission expense	(2,725)	(8,322)	(4,711)
Net fee and commission income	3,750	10,107	5,470
Net (loss)/gain on interest rate swap contracts	(388)	266	574
Franchise sales, rent receivable and other income	141	437	146
Total operating income	6,195	15,799	8,865
Bad debts written off/impairment loss on other assets	(64)	(376)	(200)
Movement in collective loan provision	(61)	218	28
Operating expenses and staff costs	(4,162)	(9,823)	(5,043)
Profit before income tax	1,908	5,818	3,650
Income tax expense	(587)	(1,920)	(1,194)
Profit for the period	1,321	3,898	2,456
Attributable to:			
Minority interest	51	73	48
Equity holders of the Company	1,270	3,825	2,408
Basic earnings per share	1.66 cents	4.99 cents	3.14 cents
Diluted earnings per share	1.66 cents	4.99 cents	3.14 cents

Consolidated Balance Sheet

As at 30 September 2008

	30-Sep 2008 Unaudited \$'000	31-Mar 2008 Audited \$'000	30-Sep 2007 Unaudited \$'000
Assets			
Cash and cash equivalents	6,662	12,061	7,489
Derivative assets held for risk management	172	635	734
Loans and advances to customers	252,119	245,707	237,011
Trade and other receivables	2,118	1,764	1,862
Current tax assets	524	796	-
Property, plant and equipment	854	832	952
Intangible assets	16,710	16,747	16,771
Deferred tax asset	304	193	250
Other assets	2,816	3,156	2,781
Total assets	282,279	281,891	267,850
Liabilities			
Trade and other payables	2,210	2,813	3,038
Derivative liabilities held for risk management	186	261	51
Loans and borrowings	254,157	253,697	240,210
Current tax liabilities	-	-	26
Other liabilities	838	786	866
Total liabilities	257,391	257,557	244,191
Net assets	24,888	24,334	23,659
Equity			
Share capital	7,503	7,503	7,503
Retained earnings	16,395	15,892	15,242
Total equity attributable to equity holders of the company	23,898	23,395	22,745
Minority interest	990	939	914
Total equity	24,888	24,334	23,659
Net tangible assets per share	10.67 cents	9.90 cents	8.98 cents

Consolidated Statement of Changes in Equity

For the six month period ended 30 September 2008

	Attributable to Equity holders of the Company				Total Equity \$'000
	Share Capital \$'000	Retained Earnings \$'000	Total \$'000	Minority Interest \$'000	
Balance as at 1 April 2007	7,503	13,600	21,103	73	21,176
Net profit for the period	-	2,408	2,408	48	2,456
Dividends	-	(766)	(766)	-	(766)
Acquired on acquisition of Finance Direct Limited	-	-	-	793	793
Balance as at 30 September 2007	7,503	15,242	22,745	914	23,659
Balance as at 1 April 2007	7,503	13,600	21,103	73	21,176
Net profit for the period	-	3,825	3,825	73	3,898
Dividends	-	(1,533)	(1,533)	-	(1,533)
Acquired on acquisition of Finance Direct Limited	-	-	-	793	793
Balance as at 31 March 2008	7,503	15,892	23,395	939	24,334
Balance as at 1 April 2008	7,503	15,892	23,395	939	24,334
Net profit for the period	-	1,270	1,270	51	1,321
Dividends	-	(767)	(767)	-	(767)
Balance as at 30 September 2008	7,503	16,395	23,898	990	24,888

Consolidated Statement of Cash Flows

For the six month period ended 30 September 2008

	30-Sep 2008 (6 Months) Unaudited \$'000	31-Mar 2008 (12 Months) Audited \$'000	30-Sep 2007 (6 Months) Unaudited \$'000
Net cash flow from operating activities	(4,995)	(65,570)	(57,455)
Net cash flow from investing activities	(97)	(306)	(273)
Net cash flow from financing activities	(307)	72,384	59,664
Net (decrease)/increase in cash held	(5,399)	6,508	1,936
Cash balance at start of the period	12,061	5,553	5,553
Cash balance at end of the period	6,662	12,061	7,489
Made up as follows:			
Bank accounts	6,662	12,061	7,489

Reconciliation of Net Profit with Cash Flows from Operating Activities

For the six month period ended 30 September 2008

	30-Sep 2008 (6 Months) Unaudited \$'000	31-Mar 2008 (12 Months) Audited \$'000	30-Sep 2007 (6 Months) Unaudited \$'000
Net profit for the period	1,321	3,898	2,456
Add:			
Depreciation of property, plant and equipment	111	332	156
Loss/(gain) on sale of property, plant and equipment	1	(4)	(5)
Increase/(decrease) in collective loan provision	61	(218)	(28)
Bad debts written off	64	158	-
Impairment loss on other assets	-	218	200
Deduct:			
Net increase in loans and advances to customers	(6,538)	(67,601)	(58,938)
Net decrease/(increase) in derivative assets and liabilities held for risk management	388	(266)	(575)
Increase in accounts receivable and other assets	(14)	(1,116)	(818)
Decrease in accounts payable and other liabilities	(550)	(682)	(379)
Decrease/(increase) in current tax assets	272	(542)	280
(Increase)/decrease in deferred tax asset	(111)	253	196
Net cash flow from operating activities	(4,995)	(65,570)	(57,455)

1. Statement of Compliance

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP") and the requirements of the Companies Act 1993 and The Financial Reporting Act 1993. They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial standards, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards ("IFRS").

Basis of Preparation

The financial statements have been prepared on the basis of historical cost, as modified by the fair value measurement of financial instruments at fair value through profit or loss. Cost is based on the fair values of the consideration given in exchange for assets.

The Group meets the definition of a Financial Institution under NZ IFRS 7 'Financial Instruments: Disclosures' and is now subject to the specific additional disclosure requirements applicable to Financial Institutions defined in Appendix E of NZ IFRS 7.

The Income Statement has been revised to disclose the net interest income, net fee and commission income and other income in line with the presentation format of the Income Statement.

The Balance Sheet presentation has been revised from the current/non-current presentation to the liquidity presentation for both assets and liabilities in line with best practice of other financial reporting institutions.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

In the application of NZ IFRS management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities where it is not readily apparent. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions, and bases of which, are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

These interim financial statements have been prepared in accordance with NZ IAS 34 covering Interim Financial Reporting, and should be read in conjunction with the 2008 Annual Report.

Segment Reporting

All business activities are carried out within New Zealand so there is no geographic segment reporting. All activities are in the financial services sector.

2. Subsequent Events

On 7 and 12 November 2008 respectively, NZF Money Limited and Finance Direct Limited were both approved under the Crown Retail Deposit Guarantee Scheme.

The Directors are not aware of any other matters or circumstances since the end of the reporting period, not otherwise dealt with within this report or financial statements that have significantly or may significantly affect the consolidated operations of NZF Group Limited.

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